

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Circuit Engineering District No. 5 of Oklahoma
Oklahoma City, Oklahoma

Report on the Financial Statement

We have audited the accompanying modified cash basis financial statements **Circuit Engineering District No. 5 of Oklahoma**, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

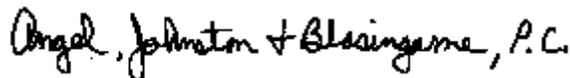
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities and each major fund of the **Circuit Engineering District No. 5 of Oklahoma**, as of June 30, 2013, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Audit Standards

In accordance with *Government Auditing Standards*, we have issued our report dated February 25, 2014, on our consideration of the **Circuit Engineering District No. 5 of Oklahoma's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matter. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That reporting is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering **Circuit Engineering District No. 5 of Oklahoma's** internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
February 25, 2014

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
Statement of Net Position - Modified Cash Basis
June 30, 2013

	Governmental Activities
<u>Assets</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 557,214
<i>Total Current Assets</i>	557,214
Noncurrent Assets:	
Other capital assets, net	2,311
<i>Total Noncurrent Assets</i>	2,311
<i>Total Assets</i>	559,525
<u>Liabilities</u>	
Other Liabilities	-
<i>Total Liabilities</i>	-
<u>Net Position</u>	
Net Investment in Capital Assets	2,311
Unrestricted	557,214
<i>Total Net Position</i>	\$ 559,525

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2013

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Changes in Net Assets</u>
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
Primary Government:					
Governmental Activities:					
General Government	\$ 70,381	\$ -	\$ -	\$ -	\$ (70,381)
Public Works	386,138	-	-	-	(386,138)
	-	-	-	-	-
<i>Total Governmental Activities</i>	456,519	-	-	-	(456,519)
<i>Total Primary Government</i>	456,519	-	-	-	(456,519)
General Revenues:					
					445,022
					12,394
					39,415
					882
				<i>Total General Revenues and Transfers</i>	497,713
				<i>Change in Net Position</i>	41,194
				<i>Prior Period Adjustment (see note 1 D)</i>	(2,100)
				<i>Net Position - Beginning</i>	520,431
				<i>Net Position - Ending</i>	\$ 559,525

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
Balance Sheet - Modified Cash Basis
Governmental Fund
June 30, 2013

	General
Assets	
Cash and Cash Equivalents	\$ 557,214
<i>Total Assets</i>	557,214
 Liabilities	
Other Liabilities	-
<i>Total Liabilities</i>	-
 Fund Balance	
Unreserved	557,214
<i>Total Fund Balance</i>	557,214
<i>Total Liabilities and Fund Balance</i>	\$ 557,214

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2013

	General
Revenues	
ACCO revenues	\$ 12,394
OCCEDB revenues	445,022
Investment Income	882
CIRB Project Management	39,415
<i>Total Revenues</i>	497,713
Expenditures	
Auto Expense	711
County Distributions	360,000
Dues and Subscriptions	165
Insurance	6,366
Office Supplies	834
Salaries and Taxes	63,280
Retirement	5,500
Payroll Services	1,601
Professional Fees	3,365
Rent	6,600
Travel	3,511
Capital Outlay	-
<i>Total Expenditures</i>	451,933
Excess (Deficiency) of Revenues over Expenditures	45,780
Net Change in Fund Balances	45,780
Prior Period Adjustment (see note 1 D)	(2,100)
Fund Balances - Beginning	513,534
Prior period adjustment	-
Fund Balances - Ending	\$ 557,214

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA
Oklahoma City, Oklahoma
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Fund
June 30, 2013

Reconciliation to Statement of Net Position:

Fund balance of governmental fund	\$	557,214
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:		2,311
Net position of governmental activities	\$	559,525

Reconciliation to Statement of Activities:

Net change in fund balance of governmental fund	\$	45,780
Amounts reported for governmental activities on the Statement of Activities are different because:		
Governmental fund reports capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized in governmental fund		-
Depreciation expense		(4,586)
Change in net position of governmental activities	\$	41,194

The accompanying notes are an integral part of the financial statements.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1 – Summary of Significant Accounting Policies

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

A. Financial Reporting Entity

Circuit Engineering District No. 5 (the “District”) was incorporated in 1999 under the laws of the State of Oklahoma in accordance with Title Sixty-nine section 687.1 of the Oklahoma Statutes, as a Voluntary Association of County Government of Oklahoma. The District is organized to promote planning and development of transportation within seven counties in Oklahoma. The governing board consists of seven trustees with one acting as the President. The District retains title to all assets which are acquired or constructed with District debt or other District generated resources.

The member counties of Circuit Engineering District No. 5 (or a duly qualified successor organization as determined by the District’s Board) are beneficiary and will receive all assets upon termination of the District. The accompanying financial statements include all functions and activities over which the District exercises financial accountability. There are no other entities for which the District is considered to be financially accountable, and as such, no other entities are presented. The District is considered to be a component unit of Oklahoma Cooperative Circuit Engineering Districts Board.

B. Basis of Presentation

Government Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. However, all the activities of the District are governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1 – Summary of Significant Accounting Policies, (continued)

B. Basis of Presentation, (continued)

particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund Financial Statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are grouped, in the financial statements in this report, into one fund type and one generic fund category as follows:

Governmental Fund Types

1. **General Fund** – This is the only fund of the District. It accounts for all the operations of the public transportation development.

C. Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

Basis of Accounting

The government-wide financial statements and the fund financial statements, are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with employee withholding taxes that have not been deposited with the Internal Revenue Service but relate to compensation paid are recorded as liabilities. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The government wide financial statements are further modified as follows:

- a. Capital assets are recorded as assets when purchased and related depreciation is recorded.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1 – Summary of Significant Accounting Policies, (continued)

C. Measurement Focus and Basis of Accounting, (continued)

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Assets, Liabilities and Equity

Cash & Cash Equivalents

The District considers all cash on hand, demand deposits, interest bearing checking accounts, time deposit accounts and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Capital Assets

Fixed assets acquired by governmental type funds are reported as capital assets within the General Fund. Capital assets are stated at cost. Capital assets used in governmental funds are not financial resources and, therefore are not reported in the funds. Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Vehicles and Equipment	5 to 15 years
Office Equipment	5 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation expense recorded for the fiscal year ended June 30, 2013 equaled \$4,585.90.

Net Position – Net Position is divided into three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 1 – Summary of Significant Accounting Policies, (continued)

D. Assets, Liabilities and Equity, (continued)

- b. *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Prior Period Adjustment - Adjustments were made to net position to reflect the effect of changes for expenses not recorded as follows:

Beginning fund balance/net position (as previously reported)	\$513,533.98
Prior period adjustments not recorded:	
Payroll expense	(\$1849.40)
Retirement expense	<u>(\$250.00)</u>
Beginning fund balance/net position, restated	\$511,434.58

E. Revenues, Expenditures and Expenses

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the District are reported as program revenues. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the District, with certain limited exceptions.

The expenses of the governmental fund are those that result from charges for services and the expenses of management of the District. These can include expenses that are related to capital and noncapital related financing, or investing activities and County Auction Allocations.

Note 2 - Investments, Deposits and Collateral

Currently the district does not have any investments.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 2 – Investments, Deposits and Collateral (continued)

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a written policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of June 30, 2013, the District’s bank balances of \$561,506.14 were not exposed to custodial credit risk.

The District’s cash deposits at June 30, 2013 are categorized to give an indication of the level of risk assumed by the District at year-end as follows:

- (A) Insured or collateralized with securities held by the District or by its agent in the District’s name.
- (B) Uninsured but collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.
- (C) Uninsured and uncollateralized.

	Category (A)	Category (B)	Category (C)
Cash	561,506	0	0
Total	561,506	0	0

Note 3 – Capital Assets

The following is a summary of the capital assets of the Governmental Fund at June 30, 2013:

<u>Governmental-type Activities</u>	Beginning Balance	Additions	Deductions	Ending Balance
Depreciable Assets:				
Machinery & Equipment	5,180	0	0	5,180
Vehicles	20,000	0	0	20,000
Total Depreciable Assets	25,180	0	0	25,180
Less: Accumulated Depreciation				
Machinery & Equipment	(3,283)	(586)	0	(3,869)
Vehicles	(15,000)	(4,000)	0	(19,000)
Total Accumulated Depreciation	(18,283)	(4,586)	0	(22,869)
Net Depreciable Assets	6,897	(4,586)	0	2,311

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

Note 4 – Compensated Absences

The organization does not accrue a liability for compensated absences. This is not in accordance with generally accepted accounting principles. However, because of the limited number of people employed by the organization, any liability for compensated absences at June 30, 2013 would not be material to the financial statements taken as a whole.

Note 5 – Retirement Plan

The District does not have a retirement plan but is paying into the employee's individual retirement account. The amount contributed to the IRA for the fiscal year ended June 30, 2013 was \$5,500.

Note 6 - Estimates

In preparing the District's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statement, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 7 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries property and general liability insurance for major risks. There have been no significant reductions in insurance coverage. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Circuit Engineering District No. 5 of Oklahoma
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of **Circuit Engineering District No. 5 of Oklahoma** as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise **Circuit Engineering District No. 5 of Oklahoma's** basic financial statements, and have issued our report thereon dated February 25, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Circuit Engineering District No. 5 of Oklahoma's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of **Circuit Engineering District No. 5 of Oklahoma's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Circuit Engineering District No. 5 of Oklahoma's** internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that

there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 13-01.

Compliance and Other Matters

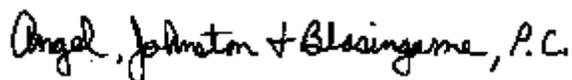
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Circuit Engineering District No. 5 of Oklahoma's Response to Findings

Circuit Engineering District No. 5 of Oklahoma's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
February 25, 2014

CIRCUIT ENGINEERING DISTRICT NO. 5

Oklahoma City, Oklahoma

Schedule of Findings and Responses

June 30, 2013

13-01 Criteria - A good system of internal control provides for a proper segregation of the accounting functions.

Condition - The District has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Cause and Effect – The lack of internal control surrounding the accounting functions could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Recommendation – The District should assess the advantages of segregating the accounting functions in order to determine whether hiring personnel would be cost effective.

Management response – At this time it is not cost effective to hire administrative staff that would be necessary in order to adequately segregate duties.

13-02 Criteria – The District is required to have enough collateral, combined with FDIC insurance, to cover all money held at each of their banks.

Condition – The District did not have sufficient collateral pledged in combination with FDIC insurance to cover all monies held at the bank on June 30, 2013. The amount the District was short was \$61,506.14.

Cause and Effect – The District manager was not aware of this requirement and had no collateral pledged and, therefore, the District was exposed to custodial credit risk.

Recommendation – The District should have enough collateral pledged to cover all money held at each bank, and it should be monitored monthly to ensure all funds are covered by collateral pledged or FDIC coverage.

Management response – The District manager was not aware of this requirement and will contact the bank to ensure they are covered in the future.

CIRCUIT ENGINEERING DISTRICT NO. 5 OF OKLAHOMA

Oklahoma City, Oklahoma

Disposition of Prior Year Audit Exceptions

June 30, 2013

12-01 Criteria – A good system of internal control provides for a proper segregation of duties. The District has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Recommendation – The District should assess the advantages of segregating the accounting functions in order to determine whether hiring personnel would be cost effective.

Disposition - **This continues to be a finding.*

12-02 Criteria – The District has agreed to pay the District manager a retirement contribution equal to 10% of base salary. Total contributions for the year should total \$6,000. It appears that the retirement contribution has been overpaid by \$500. During the 2010-11 year, 25 payments of \$250 were made totaling \$6,250. This included one (1) advance payment for July 2011. Had the District again paid in advance for July 2012, 24 payments would have been made in the 11-12 year. Because the District did not advance payment for July 2012, they should have only made 23 payments during the current year. However, they again made 25 payments of \$250. It appears that two (2) duplicate payments were made in December 2011.

Recommendation – We recommend the District monitor the number of yearly retirement contribution payments to ensure that only 24 payments of \$250 are made, totaling \$6,000 per year. The District should reconcile at this point and adjust the current year payments accordingly.

Disposition – This was corrected and the overpayment was paid back to the District.